

ABSTRACT

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The Impact of Decentralization of Small Cities Community
Development Block Grant Program

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The primary concern of this study is to examine the impact of decentralization as it specifically relates to the small cities Community Development Block Grant Program. There has been a general awareness that since the states' assumption of the program in 1982, significant changes have occurred in the types of projects funded by the states as compared to those funded when Housing and Urban Development administered the program.

The states' shift in funding priorities seem to be eroding the redistributive nature of this grant-in-aid program, whose primary beneficiaries are the low and moderate income persons. Thus, this study underscores the point that state and local governments are not politically responsive to the needs of their economically disadvantaged citizens; therefore, the federal government should again assume the responsibility for the administration of the

program and establish priorities to be followed by the localities.

The main sources of information for this paper were participatory observation, a variety of information obtained from public documents, books, newspapers, journals and governmental research agencies.

THE IMPACT OF DECENTRALIZATION OF SMALL CITIES
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

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TABLE OF CONTENTS

LIST OF TABLES.....	iii
I. INTRODUCTION.....	1
II. THE PROBLEM AND ITS SETTING.....	3
Background of the Agency.....	3
Internship Experience.....	5
Statement of the Problem.....	6
III. REVIEW OF LITERATURE.....	10
Historical Background and Political Development.....	10
Literature of Related Empirical Data.....	16
IV. METHODOLOGY.....	21
V. ANALYSIS OF THE PROBLEM.....	23
VI. CONCLUSION.....	33
VII. RECOMMENDATIONS.....	35
BIBLIOGRAPHY.....	36

LIST OF TABLES

I.	Distribution of Small Cities CDBG Funds By Project Activity During HUD and State Administration.....	25
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I. INTRODUCTION

In 1981, Congress passed the Omnibus Reconciliation Act (OBRA81) in response to President Reagan's "Program for Economic Recovery." This act consolidated over fifty categorical grants into nine block grants.¹ The Reagan Administration's success in securing the enactment of this act facilitated the President's primary objective in domestic policy which seeks to reduce the role of the federal government in intergovernmental policy and decision making. Under the block grant approach, most of these grant programs will now be under the administrative control of state governments rather than federal agencies.

Under the Small Cities Community Development Block Grant (CDBG), states may now assume the responsibility for the administration of CDBG funds for nonentitlement areas within their jurisdiction; otherwise Housing and Urban Development (HUD) will continue to run the program as was the case prior to the 1981 act. The statute which authorized the states' program allows states a great degree of flexibility to design their methods of distributing funds and to establish the policies and procedures for their

¹The nine consolidated block grants cover four in health services, three in social services, one in education and one in community development.

program. By 1985, forty-seven states had accepted the jurisdiction of the small cities program (only New York, Maryland and Hawaii have not).

Since the states' takeover of CDBG, there have been significant changes from previous HUD management. This paper attempts to address issues involved when Grant-in-aid programs are shifted from national government's to state governments' control with particular attention to the impact of such a policy change on the low income groups within the communities. Low and moderate income groups are defined as those whose income is below 50 percent and 80 percent of the medium income family of the area.

II. THE PROBLEM AND ITS SETTING

Background of the Agency

Created in February 1981, the Office of Redevelopment is run by the Community Development Office in Atlanta which receives funds from HUD under the CDBG Program. The primary responsibility is to prepare and implement specific plans for redevelopment of specified areas in the City of Atlanta.

Its planning objective is:

The elimination and prevention of detrimental development which, due to the area's present conditions and usages, retards the provision of decent housing, thereby, constituting an economic or social liability, and impairing the growth of the city.²

Therefore, the redevelopment power constitutes the only mechanism by which the City can acquire private property for non-public uses--that is, specifically for reselling to private development enterprises in an effort to promote economic development, thereby increasing financial stability in the City by creating more jobs, and increasing the City's tax base.

Implementation of the redevelopment program encompasses the following major activities:

²City of Atlanta Summary of Economic and Community Development Strategies (Office of Redevelopment, March 1984), pp. 1-2.

- Redevelopment, planning, programming and budgeting;
- Coordination of citizens business and government inputs;
- Acquisition, condemnation, and demolition of properties;
- Interim management and leasing of acquired property;
- Planning, coordinating and monitoring public infrastructure improvements;
- Provision of property site improvements;
- Marketing of city-owned properties and other properties having development potential in the city;
- Coordinating and maintaining liaison activities; and
- Maintenance of redevelopment properties.³

In an effort to accomplish its primary purpose, the Office of Redevelopment undertakes three main actions. The first is a comprehensive marketing campaign known as Decision Atlanta which is used to encourage private investments in the City of Atlanta, specifically on the properties owned by the City. However, the Office of Redevelopment also acts as a referral and coordinating service for the development of private properties which satisfy individual developer's needs. The second action is the development of a diversified method for the disposition of redevelopment properties. The third major action is what is called the

³Ibid.

"one stop development process." Because the newly reorganized Department of Community Development (DCD), which is responsible for all aspects related to the planning (rezoning, land sale, and construction permitting of new development), the DCD has established a mechanism to assist potential developers from an initial conceptual meeting through the completion of the development project. Thus, the Office of Redevelopment plays an integral role in the coordination process.⁴

In short, the main goal of the Office of Redevelopment is to plan, program, and implement specific activities for the physical, social, and economic development of designated areas within the City of Atlanta. Hence, its primary activities are centered around the acquisition of properties, the relocation of business and residents, the management, leasing and demolition of acquired properties, the planning, coordinating and monitoring of public improvements, the marketing sales of properties, and the monitoring of construction activities in redevelopment areas.

Internship Experience

Under the sponsorship of an educational grant from HUD, the writer served as an intern in the Office of Redevelopment from September 1984 to April 1986.

⁴Ibid., pp. 3-4.

While serving as an intern, the writer's primary duties, inter alia included the determination of parcel ownership, verification of records of titles, easements, appraisal, and tax record information in preparation for negotiations, and taking an inventory of all properties and implementing marketing programs for each site for development by private developers. The writer also assisted the Redevelopment Property Specialist in locating prospective developer and helping them understand redevelopment sales procedures. The tasks also involved processing purchase proposals received, negotiating and preparing sales for closing, thus serving as liaison to the developer during land sales process.

Working under a HUD sponsored agency expanded the writer's knowledge on the operation of block grants, particularly the CDBG and hence the interest to carry out a study on the impact of decentralizing grant-in-aid programs with emphasis on small cities CDBG.

Statement of the Problem

Small cities CDBG has now been under state control for at least three years. The states' takeover of this block grant program provides an opportunity to consider the effects of decentralization in the national government system. Specifically, by moving the allocation process from the national government level to the subnational level, the

small cities program provides one of the clearest tests of potential conflict between national purposes and local autonomy. Even though CDBG as a block grant was designed to permit local governments considerable discretion in designing and formulating projects and activities to benefit low and moderate income groups, there is no doubt that the program was intended to be redistributive. Thus, the states were expected to remain faithful to the law's basic purposes but were permitted considerable latitude in diversifying an overall program to accomplish those ends.⁵

However, the legislations authorizing states' assumption of CDBG imposes few restrictions on what states may do. The law requires that states give "maximum feasible priority" to meeting the two basic objectives of the 1974 Community Development Act--that is, benefit low and moderate income families and prevent slums and blight. Regardless of this provision, such a change allows significant latitude for small cities grant program to reflect the preferences and priorities of state and local officials.⁶

By minimizing federal control and maximizing local autonomy, many scholars and politicians urge that this is a return to the past rather than the path for the future. In

⁵David R. Morgan and R.E. England, "The Small Cities Block Grant Program: An Assessment of Programmatic Change under State Control," Public Administration Review Vol. 44 (November/December 1984):477-479.

⁶Ibid.

the years around the turn of the century, urban problems for example--physical decay, overcrowding, racial conflict, and inefficient local governments--were regarded as responsibilities for the state and local authorities, but not for the federal government. It was not until the Great Depression of the 1930s that the federal government attempted to directly confront the problems of the nation's cities. This was highlighted in the Housing Act of 1949 when the federal government for the first time identified its objective as the provision of a decent home and suitable living environment for all Americans. The Preamble of the act declared that

. . . the general welfare and security of the nation and the health and living standards of its people require housing production and related community developments sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and other blighted areas and the realization as soon as feasible of the goal of a decent home and suitable living environment for every American family, thus contributing to the development and redevelopment of community⁷

Since then, the federal government has embarked on widespread support of housing and community development activities to ensure that its redistributive policies are carried out. Decentralization of CDBG therefore can be looked at as a way of the national government seeking to

⁷Omnibus Housing Act of 1949, Pub. Law 171, 81st cong., 1st sess., 1919, p. 1.

abrogate its domestic responsibilities, especially to the economically disadvantaged people and communities.

Many studies clearly indicate the incompatibility of the state and the federal government's priorities. For instance, a survey carried out by the General Accounting Office (GAO) in 1983 revealed that there is a general decline in the number of low and moderate residents benefiting from community development activities, largely due to the fact that the states are now shifting funds away from housing rehabilitation activities to public improvements and economic development.⁸

Therefore, the key question to be analyzed is whether the states' assumption of small cities CDBG defeats the national purpose for enacting the grant program--that is, specifically to benefit low and moderate income families while placing emphasis on decentralization as it relates to redistribution, and its impact on low and moderate income families.

⁸U.S. General Accounting Office, "States Are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program" (Washington, D.C., Government Printing Office, September 1983), p. 20.

III. REVIEW OF LITERATURE

Concern about community development priorities between the federal and the state governments is not new. It has spawned numerous theoretical studies. While it is not possible to cover all significant literature related to the states' governments, political responsiveness as compared to the federal government, what is offered here is a brief historical background and development of CDBG, and a summary of literature and related empirical data.

Historical Background and Political Development

The Community Development Grant Program enacted in 1974 as amended in 1977 and 1981 consolidated several housing and urban renewal programs into Community Development Block Grants.⁹ Entitled communities--that is, central cities of Metropolitan Statistical Areas (MSA's) or other cities in MSA's with 50,000 or more population, and urban counties of over 200,000 in population were entitled to a yearly formula grant based on objective needs factors. Under the 1974 Act, as amended, the CDBG funds allocated to entitled communities was based on population, overcrowding,

⁹Consolidated Housing and Urban Renewal Programs were Model Cities, Water and Sewer Facilities, Open Space, Neighborhood Facilities, Rehabilitation Loan.

and poverty (double weighted), or from a "hold-harmless" average of the displaced categorical grants received during the period of 1968 to 1972. The 1974 law also provided that "hold-harmless" entitlements would be phased out between 1978 and 1980. Approximately thirty percent of the funds were available to cities of less than 50,000 in population (commonly known as small cities), and were distributed on a competitive basis.

The primary objective of Title I as stipulated in this act is:

. . . development of variable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income families.¹⁰

Consistent with the primary objective, the federal assistance provided by this program is meant for the support of community development activities directed toward the following specific objectives:

- 1) The elimination of slums and blight and the prevention of blighting, influence and the deterioration of property and neighborhood and the community facilities of importance to the welfare of the community, principally for persons of low and moderate incomes;
- 2) The elimination of conditions which are detrimental to the health, safety, and public welfare, through code enforcement,

¹⁰Housing and Community Development Act of 1974, Pub. Law 93-383, United States Statutes at Large, 93rd Congress, 2d sess., Vol. 99, 1974, p. 635.

demolition, interim rehabilitation assistance and related activities;

- 3) The conservation and expansion of the nation's housing stock in order to provide a decent home and a suitable living environment for all persons but principally those of low and moderate incomes;
- 4) The expansion and improvement of the quality and quantity of the community services, principally for persons of low and moderate incomes, which are essential for sound community development of viable urban communities;
- 5) A more rational utilization of land and other natural resources and a better arrangement of residential, commercial, industrial, recreational and other needed activity centers;
- 6) The reduction of the isolation of income group within communities and geographical areas and promotion of an increase in this diversity and vitality of neighborhoods through spatial disconcentration of housing opportunity for persons of lower incomes, and the revitalization of deteriorated neighborhoods to attract persons of higher incomes;
- 7) The restoration and preservation of properties of special value of historic, architectural or esthetic reasons; and
- 8) The alleviation of physical and economic distress through the stimulation of private investment and community revitalization in areas with population out-migration and stagnating or declining tax base.¹¹

Thus, the central purpose of the CDBG program was to transfer substantial decision-making authority from federal

¹¹Ibid.

to local officials and to provide the latter with more flexibility in the use of the funds. Even though decentralization was to be the procedural goal of the block grant, the 1974 legislation also included substantive goals aimed at eliminating or preventing slums and blight, assuring that the primary beneficiaries were low and moderate income group; and taking care of local needs of particular urgency because existing conditions pose a serious and immediate threat to the health and welfare of a community in the absence of other financial resources to meet such needs.

HUD's concern for the substantive goals began to appear as early as the second program year during the administration of President Ford. However, it was during President Carter's administration that HUD officials made the explicit choice to escalate substantially the federal role in the program and put strong emphasis on substance, thereby giving the highest priority to social targeting.¹² This was expressed soon after the Carter Administration took office when the new HUD secretary, Patricia R. Harris, told a senate committee:

The basic administration machinery is now in place. It is time to determine if the funds

¹²Paul R. Dommel, M.J. Rich, and Leonard Rubinowitz, Decentralizing Community Development (Report to the U.S. Department of Housing and Urban Development, 1983), pp. 13-16. For more information on targeting policy, see Paul R. Dommel, Targeting Community Development, Department of Housing and Urban Development (Washington, D.C.: Government Printing Office, 1980), pp. 9-18.

are being spent to carry out a clear strategy:
Are they being used primarily to benefit low-
and moderate-income persons?¹³

Thus, local accountability for the use of CDBG funds was defined in terms of the substantive national objectives, and more particularly, social targeting.

The vigorous escalation of activities during Carter's administration towards social targeting caused many local officials to complain that

. . . such "expansionism" impinges on the greater local discretion they expected from the block grant and frequently intrudes into what they regard as traditionally local prerogatives.¹⁴

A study conducted by Paul Dommel also indicate that HUD's social targeting policy did result in a higher level of direct benefits to low and moderate-income groups.¹⁵ However, the increasing involvement of the federal government in the administration of CDBG came to a halt by the entrance of President Reagan.

The Reagan Administration came into office advocating federal decentralization of a wide range of domestic

¹³Housing and Community Development Legislation of 1977, Hearings before the Committee on Banking, Housing and Urban Affairs. S.S. Senate, 95th Cong., 1st sess., April 18, 1977, p. 114.

¹⁴Paul R. Dommel, et al., Targeting Community Development, Department of Housing and Urban Development (Washington, D.C.: Government Printing Office, 1980), pp. 14-17.

¹⁵Ibid., pp. 18-24.

policies, including CDBG. President Reagan's decentralization had two principal elements--administrative and legislative. Administrative decentralization was implemented through fewer and more flexible regulations and guidelines, while legislative decentralization primarily came through the elimination in the law of the CDBG application process.¹⁶ It was during this time that Congress passed the Omnibus Reconciliation Act of 1981 (OBRA81) under which states assumed the administration of small cities CDBG.

The OBRA81 abolished the formal CDBG application process and substituted the requirement that a recipient provide a final statement of community development objectives and projected use of funds. Therefore, HUD did not issue a new set of formal regulations establishing any administrative procedures to be followed by local government in preparing their submissions. More generally, legislative elimination of the application process removed major potential leverage HUD had in its authority to say "no" to an entire application or individual activities within it. It should be noted that HUD had used the application process not necessarily to control local planning but to influence it. Therefore, the Reagan Administration wished to end this federal influence and to leave development strategy to local

¹⁶Ibid., pp. 19-20.

participants in the decision-making process. Even though the 1981 changes did not alter the three national objectives but in ending the application process, the new law shifted the locus of expressing any preference among the three national objectives from HUD to local officials.¹⁷

Literature and Related Empirical Data

In his book Metropolis against Itself,¹⁸ Woods urges that decentralization leads to inefficiencies and diseconomies of political fragmentation leading to urban sprawl, inadequate open spaces, congested schools and mediocre administration. The disparities in the quality of life and public services between the central and suburban areas of the fragmented metropolis has attracted a good deal of criticism from American theorists on decentralization.

Literature on decentralization has focused on two key questions: Are the states and localities administratively capable of running effective programs, and are they politically responsive to the same values as the federal government? Underlying this question is a belief that state and local officials have a biased and vested interest in local politics and decision making. This creates an air of distrust of state and local officials to take care of the

¹⁷Ibid., p. 21.

¹⁸R.C. Woods, Metropolis against Itself (New York: Doubleday, 1959), pp. 39-45.

problems of the socially and economically disadvantaged people. According to Dommel in his book The Politics of Revenue Sharing, he notes that:

This distrust of state and local officialdom was not without historical support. In our pluralistic society, organized interest have always been more successful in operating in the political and economic arenas than have the disorganized or unorganized elements, the economic and political havenots.¹⁹

While this may be true at all levels of government, the major advances that have been made by the disadvantaged groups over the past fifty years have come by elevating decision making to the national level. This is evident by the social welfare emphasis of the national government. Standing out is the case of civil rights, where remedy could only be found through intervention by national institutions such as the Supreme Court.²⁰ Closely related is the study by Schattschneider on democracy in America. He urges that the more narrow the scope of political conflict, the more likely the system will produce policies benefiting organized groups and maintaining the status quo. Since the most powerful interest is to keep decision narrowly circumscribed, he contends that it becomes the function of the public authority to enlarge the scope of conflict, in effect, to widen the decision-making arena. For the have-

¹⁹P.R. Dommel, The Politics of Revenue Sharing (Bloomington: Indiana University Press, 1974), p. 35.

²⁰Ibid.

not group in the United States, the efforts to broaden the decision-making arena have inevitably meant appealing to the national government.²¹ For example, it took the Supreme Court's decision to integrate public schools over the fierce opposition of many state and local officials.

In their article in the Public Administration Review, Morgan and England support this theory by quoting W.H. Riker, who writing during the 1960s Civil Rights Movement argued that historically the main beneficiary of federalism in the United States was the southern segregationists who were given the freedom to oppress black people.²² Ultimately of course, federal government intervention was essential to overcome the resistance of state and local officials. Riker's view on U.S. federalism is based on an analysis showing that in practice major policy decisions made by sub-national units are invariably minority decisions tending to favor privileged groups such as large businesses and land owners, which impose high external costs on the national majority.²³

Thus, literature supports the argument that a state or local government can be less responsive than a

²¹E.E. Schattschneider, The Semi-Sovereign People (New York: Holt, Rinehart and Winston, 1960), pp. 39-40.

²²Morgan and England, "The Small Cities Block Grant Program," 1984.

²³Ibid.

centralized government to popular needs. Therefore, the greater the degree of decentralization, the less likely the community will pursue its redistributive policies. Now, the question to ask is whether there are related studies and empirical support for this view of the events characterizing national-local relations.

A study conducted by Lazin and Aroni on the subsidized housing program in Los Angeles shows the reluctance of federal officials to oppose local policies even if they conflict with federal regulation or law. Once national policies conflict with sub-national interest, it is difficult for the national government to achieve greater equity or social targeting.²⁴

Regarding revenue sharing, Caputo and Cole noted that allocation of such funds promote very little redistribution. Such spending has been largely conservative and status quo oriented, heavily favoring traditional services with such areas as health and social services receiving relatively small portions.²⁵ Studies carried out by Paul R. Dommel of the Brookings Institute show that when President Carter's officials expressed a clear policy preference among the

²⁴Fred Lazin and Samuel Aroni, "Federalism Low Income Housing Policies and the Myth of Centralized Power," Policy Studies Review Vol. 3 (1981):62-66.

²⁵David A. Caputo and Richard L. Cole, Urban Politics and Decentralization (Lexington, Massachusetts: D.C. Heath Company, 1974), p. 153.

three national objectives, choosing social targeting as their highest priority, among a group of forty-one sample cities, the estimated level of benefits to low and moderate income groups increased from fifty-six to sixty-two percent. Apparently, it was necessary for HUD to bring pressure on a number of cities to increase the share of CDBG funding for lower income residents.²⁶

²⁶Paul R. Dommel, M.J. Rich and Leonard Rubinowitz, Deregulating Community Development (Washington, D.C.: U.S. Department of Housing and Urban Development, 1983), pp. 13-17.

IV. METHODOLOGY

The methodological approach used in this paper is descriptive analysis. This serves our attempt to analyze the effects of decentralizing CDBG on the largest population and whether the state and local governments are politically responsive to the same values as the federal government.

In this effort, both primary and secondary sources were utilized. The primary sources were obtained through observation while the writer served as an intern in the Office of Redevelopment in the City of Atlanta. While there, the writer conducted interviews with Ms. Evelyn Nu'man, a financial analyst who was able to assist the writer in determining the general expenditure of CDBG funds within the City of Atlanta. Other interviews were also conducted with Ms. Susan McGee from the Department of Community Affairs of the State of Georgia, who supplied data which along with other sources was used in the assessment of local uses of funds committed to small cities CDBG. Other date sources were drawn from HUD's annual report to the Congress who obtains their information from annual reports which each state is obligated to file concerning the actual use of CDBG funds.

Secondary data were extracted from a variety of sources, which included journals, especially Public Administration Review and Policy Studies Journal, newspapers, books, pamphlets, and correspondence with the Council of State Community Affairs Agencies that compiles data on states issues including CDBG.

V. ANALYSIS OF THE PROBLEM

Enactment of the OBRA81 and institution of a series of decentralizing initiatives produced potentially significant changes in small cities CDBG. In assuming control of the program, a state must agree to two basic conditions: (1) to continue to fund HUD's previously approved multi-year projects, and (2) to adhere to the primary national objectives of the CDBG Act. Apart from these two requirements, states were given the freedom to develop purposes and procedures for distributing funds as state and local priorities dictate. Proponents of President Reagan administration's decentralization policy of CDBG seem to share a general view that increased flexibility in the program has been rightfully turned to the states because

. . . states and local governments are the recipients of greater flexibility and discretion, particularly when they are allowed to spend federal grant money on their established priorities, carry out regulatory and administrative functions formerly belonging to the federal government, and develop their own consultation processes. In short, these governments are better able to tailor these kinds of activities to their unique state and local needs. Furthermore, decentralization of the regulatory role of government serves to fix political responsibility and accountability. That is, citizens will have a better

idea as to where responsibility is lodged and to whom inputs should be directed. . . .²⁷

Whereas it may be true that state and local governments understand their local needs better than the national government, the key issues to be raised and analyzed are whether state and local governments' priorities are compatible with those of the national government. Can state and local governments act in good faith and adhere to the primary objective of the Housing and Community Development Act of 1974 which clearly states that the principle beneficiaries should be low and moderate income persons? Has housing rehabilitation that provides direct benefits to such group given way to development projects in which politically connected investors are the primary beneficiaries instead of the intended group?

Initial analysis of the effects of states assumptions of small cities CDBG clearly indicate that spending priorities have shifted since 1982 when the states took over the administration of the program. As Table I indicates, some significant changes have occurred in the types of projects funded by the states. This shift in funding of projects was expected due to the fact previous studies indicate that, if given the opportunity, state and local officials will push for funding of their defined priorities.

²⁷J. Edwin Benton, "American Federalism's First Principles and Reagan's New Federalism Policies," Policy Studies Journal Vol. 13 (March 1985):571-573.

TABLE I

Distribution of Small Cities CDBG Funds by
Project Activity During HUD and
State Administration

<u>Percent of Grant Expenditure by:</u>			
<u>Project Activity</u>	<u>HUD (1981)</u>	<u>State (after 1 year)</u>	<u>State (after 2 years)</u>
Housing	33%	17%	16%
Public Works/ Facilities	38%	37%	29%
Economic Development	4%	18%	14%
Multipurpose and Others	<u>25%</u>	<u>28%</u>	<u>41%</u>
Total (N)	100% (51)*	100% (26)	100% (21)

Source: Adopted from Eric B. Herzik and J.P. Pelissero "Decentralization, Redistribution and Community Development: A Reassessment of the Small Cities CDBG Program"; Public Administration Review, Vol. 46, No. 1 (January/February 1986):33.

*Includes Puerto Rico.

Note: Many states have adopted HUD's funding system of providing two main funding competitions: Single Activity Grant which is designed to address and resolve a specific community need within one of the three problem areas, namely, housing, public works/facilities and economic development. An application must consist of one activity or a set of activities. However, all activities must address one of the problem areas. Multi-activity grants allows the applicants to address identified community needs in a comprehensive manner. Multi-activity applications must contain two or more activities and address needs in more than one of the problem areas mentioned above.

And what are they? A 1978 HUD study of the development needs of small cities shows that local officials ranked public facilities as their first priority for improvement.²⁸ In 1982-83, the General Accounting Office (GAO) studied seven states to see what changes might result from state approved projects. In six of the states GAO reported declines in the number of low and moderate income people benefiting from CDBG funds. The decrease was largely caused by the fact states were shifting funds from housing rehabilitation to public improvements and economic development. The average decline in percentage of lower income groups assisted was 13 percent.²⁹

It is not the intend of the researcher to suggest that public improvements are disadvantageous to lower income groups. Indeed the financially less well-off groups would be the beneficiaries if such projects lie within a neighborhood that has deteriorated, or is facing blighted conditions; and sometimes, such is the case in some older cities. But by and large, public works projects are more likely to be area wide projects; thus, denying direct benefits to lower income groups.

²⁸U.S. Department of Housing and Urban Development, Consolidated Annual Report to Congress on Community Development Programs (Washington, D.C., April 1983), p. 46.

²⁹U.S. General Accounting Office, 1983, p. 20.

In 1981 while the program was still under HUD, housing received one-third of the small cities CDBG funds. However, housing activities which provided direct benefits to the economically depressed are giving way to development projects. A survey carried out by the Council of State Community Affairs Agencies (COSCAA) in 1984 reported that small towns received most state CDBG infrastructure awards. The analysis based on 36 states operating the CDBG in 1982 and 1983 also found a sizeable percentage of the CDBG awards were for water (23.6 percent) or sewer (13.5 percent) projects.³⁰ This confirms other research findings that small communities often have problems funding water and sewer improvements. In fact, repairing of water works systems and transportation is a problem that is facing the nation as a whole. A report released by the Joint Economic Committee (JEC) on the nation's water works and transportation system February 1984 reaffirmed that there is:

. . . a vast gap between needs for improvements and the money available to pay for them. . . . It would take \$1.2 trillion between now and the year 2000 to keep up with the nation's infrastructure. Expected revenues from all sources in that period for infrastructure work, meanwhile amount to \$710 billion.³¹

³⁰"Small Towns Received Most State Community Development Infrastructure Grants," Housing and Development Report Vol. 12 (June 1984):69.

³¹Robert Rothman, "Hill Politics Delay Repair of 'American Ruins'," Congressional Quarterly Vol. 42 (September 1984):213B.

Finally, a study of eight small Missouri communities reported CDBG funds had become a virtual subsidy for local public works.³²

Economic development activities have always consistently accounted for a relatively small percentage of most small communities CDBG grant spending. But as Table 1 indicates, funds allocated for economic development spending has more than tripled since 1981. Two main reasons can be cited for this increase. First, facing severe unemployment and tax base erosion, many states have chosen to emphasize economic development in the administration of the small cities CDBG.³³ Secondly, during the 1970s when the block grant was enacted, it was one of the various federal programs intended for rehabilitation and economic development in cities. But the Reagan administration's budget cuts have either eliminated or substantially slashed the available funds for economic development. While the small cities CDBG has not entirely escaped the piercing budget machete, it has barely been spared (Reagan's latest budget proposes further cuts from CDBG funds). As the other funds have dried up, "Cities increasingly have looked to the economic

³²Gerald T. Gabris and B.J. Reed, "Responses of Cities to Federal Aid Decentralization: Community Development," Southern Review of Public Administration Vol. 2 (December 1978):301-324.

³³State CDBG Update Vol. 4 (Council of State Community Affairs Agencies, January 1984), p. 1.

development aspects of the block grant program as an alternative."³⁴

It is a general belief of the decentralization foes that the quality of life in an inner city is an important determinant of company relocation decisions. After all, a major concern of companies when considering a possible location is whether or not a candidate city will be attractive enough for its white-collar employees. For this reason, use of CDBG funds to reduce crime and rehabilitate deteriorated neighborhoods is an integral part of a city's economic development program.³⁵ However, a survey by Dommel of the Brookings Institute shows that economic activities provide fewer direct benefits to low and moderate income persons than other community development activities like housing or public facilities due to the fact that CDBG supported jobs do not have to go directly to low and moderate income people but only be available to such groups. Furthermore, the research indicates that economic development activities benefit community developers and business owners more than lower-income people.³⁶ In one city in Georgia, there are several documented cases where local residents were promised jobs after companies relocated

³⁴The Atlanta Journal and Constitution, 2 March 1986.

³⁵Ibid.

³⁶Dommel, Rich and Rubinowitz, Deregulating Community Development, pp. 151-152.

businesses in their neighborhoods. But as it turned out, most of the businesses brought their own personnel and made no effort to hire local residents who were intended to be the principal beneficiaries of such CDBG supported economic developments.³⁷ Such practices are not limited to any particular area because it seems a general practice as previously stated that, most state and local officials are not politically responsive to the needs of the economically disadvantaged.

While it is also true that states have undertaken some significant steps by increasing the number of communities that receive CDBG funds (an increase of 75 percent); however, the amount of grants awarded have dropped from an average of \$485,000 to \$219,000.³⁸ What this increase simply means is that more communities are now receiving the grant under state administration than when HUD ran the program. However, given that HUD does not have data on any year after 1982 that documents whether the funds expended met the program's national objectives simply shows that the federal oversight of the program is minimal. HUD officials instead rely on grant recipients in determining whether benefits promised to the poor were delivered. Even now, reports show that information is not as easily

³⁷Atlanta Journal and Constitution, 2 March 1986.

³⁸U.S. Department of Housing and Urban Development, 1983 Consolidated Annual Report, pp. 45-46.

available as it used to be due to the fact that revision of regulations changed the reporting requirements for grant recipients requiring less detail on project benefits reports. This also indicates that even if HUD strengthened reporting regulations, it would still have a tough time monitoring CDBG program benefits. Figures show that whereas the agency had a staff of 1,899 to monitor grants in 1981, it expects to have only 799 in 1987.³⁹

Consequences of inadequacy in monitoring the program can be cited in an example of a problem that occurred in Missoula, Montana where the Sheraton hotel chain secured a federal grant to use in building a new hotel. To get the grant the company promised that it would request local agencies to aid in locating locally qualified poor minority workers to fill at least 10 of 150 permanent jobs to be created. The National Citizens Monitoring Project, a non-profit watchdog group reported that the company neither filled the 10 vacancies with poor minorities nor contracted local agencies as promised.⁴⁰

Whereas it may be true that decentralization of the regulatory role of the federal government may surface and fix political responsibility and accountability, whereby citizens have a clear idea as to who is responsible, and to

³⁹Atlanta Journal and Constitution, 2 March 1986.

⁴⁰Ibid.

whom inputs should be directed, studies have determined that by and large this is not the case in small cities. However, unlike small localities, large cities which consist of greater neighborhood diversity and more politically active groups are more likely to be interested in specific neighborhood projects.⁴¹ In addition, officials in small cities have a greater position of influence and tend to succeed in promoting their priorities with little resistance from the local residents.

⁴¹Morgan and England, "The Small Cities Block Grant Program," 1984.

VI. CONCLUSION

This study shows a significant difference between HUD administration and state administration of the small cities CDBG. States are increasingly eroding the redistributive nature of this grant program, and replacing it with their well established local priorities. History shows the states' inclination not to assist its economically disadvantaged citizens and given this fact, one must wonder why the federal government has decided to minimize its control over the program.

Historically, the economically disadvantaged group in the United States have been forced to turn to the federal government for assistance. Now if the national government has altered the rules by assigning the administration of this redistributive program to those who turned a deaf ear to the needs of this particular group, is this not a return to the past?

The political reality in this country clearly demonstrates that the low and moderate income groups are less well-organized than the rich. And if politicians are responsive to the needs of the rich who are able to articulate their demands to the power structure, then it is quite obvious that the needs of the poor and low income groups

will be disregarded. The findings of this study as well as numerous others underscore the fact that the federal government should again assume responsibility for the administration of the program and establish the priorities to be followed by the localities. Unless this happens, the local officials as in the past will continue to ignore the needs of the low income groups who were initially intended to be served by the Community Development Block Grant Program.

VII. RECOMMENDATIONS

After discussion of the effects of decentralizing small cities CDBG and the negative impact on the low income group, the following actions have been recommended to alleviate the problem:

- 1) The federal government should end its decentralization policy and assume the responsibility for readministering the program.
- 2) The federal government should increase its field personnel to monitor the effectiveness of the program, in essence assuring that it is benefiting the targeted group.
- 3) In the event that the above recommendations are not adopted, then the CDBG program should be abolished all together. It has been compromised and has lost its effectiveness as an aid to low income groups.

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